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FISCAL IMPACT STATEMENT

LS 6955 **DATE PREPARED:** Mar 4, 1999
BILL NUMBER: HB 1442 **BILL AMENDED:** Mar 1, 1999

SUBJECT: Collective bargaining for noncertificated employees.

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FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill allows noncertificated school employees to engage in collective bargaining. It provides for disciplinary procedures for noncertificated employees of a school corporation or employees of a state institution The bill also provides certain procedural requirements before a noncertificated employee of a school corporation or an employee of a state institution may be discharged.

Effective Date: July 1, 1999.

Explanation of State Expenditures: (Revised) *I. Collective Bargaining:* Collective bargaining by non-certified school employees involves two components that may impact state expenditures. Firstly, this proposal could increase the expenses of the Indiana Education Employment Relations Board (IEERB). It is estimated that IEERB would require an additional $45,000 per year for ad hoc staff and supplies to cover the additional effort created by this bill.

Secondly, this bill could significantly affect wages and fringe benefits for school employees. Wage and fringe differentials resulting from collective bargaining may affect the amount of money distributed by the state to local school corporations. With respect to the potential costs of collective bargaining, various studies have been conducted in recent years attempting to estimate the effect of collective bargaining on wage, salary and benefit levels of public employees. Most studies conclude that public sector collective bargaining differs significantly from collective bargaining in the private sector.

Public sector unions have a greater influence than private sector unions on employer behavior because of their ability to work within the political process. Unions, through their lobbying efforts, can influence public sector budgets and, thus, the demand for public sector employees in addition to the level of compensation (Zax and Ichniowski, 1988). In addition, public sector union wage effects can differ significantly over time and are generally smaller than those in the private sector but are far from negligible (Lewis, 1990).

Wage effects are usually measured through cross-sectional statistical studies where general wage levels of government employees without collective bargaining are statistically compared to collectively bargained wage levels. By controlling for other economic variables which might influence wages, researchers are able to arrive at an estimate of the wage differential which is attributable to collective bargaining. However, wage level differentials are not expected to occur immediately after the introduction of collective bargaining. Differentials accumulate from annual contract settlements which are slightly higher than those that would have existed collective bargaining did not occur. Thus, over time, small incremental wage and salary increases due to collective bargaining accumulate into differentials which are eventually reflected in the annual payroll base.

Comprehensive literature reviews by Freeman (1986) and Lewis (1988), tend to confirm the impact of these moderate, but non-negligible, collective bargaining effects on union/non-union wage differentials for all government employees in the public sector. These studies also report the effect of collective bargaining on fringe benefits to be at least as great or greater than on wage levels. Lewis (1990), in a survey of 75 studies which estimated union/non-union wage and benefit differentials for various levels of government and employee groups, concluded that the average differential in total compensation (wages plus fringe benefits) over time was 8% to 12% for the public sector.

Note: This analysis does not include the potentially significant effects of collectively bargained conditions other than wage and fringe benefits increases.

II. Seniority Provision: State funded educational institutions may incur additional costs related to provisions in the bill requiring decisions on reduction in force and rehiring to be based solely on classification seniority. While such provisions may alter the hiring decisions of employers, the precise fiscal impact is unknown and would depend upon the specific hiring decisions (and the wage levels of affected employees) that would have occurred without this provision.

III. Discipline and Dismissal Procedures: This bill establishes a three step process for the discipline and discharge of employees of school corporations and state funded educational institutions. The employer must give employees “reasonable time” to correct any problems prompting disciplinary action. If unsuccessful, an employer may suspend employees without pay and ultimately discharge them if no remediation has occurred. Employees may request a hearing, by an IEERB-appointed hearing examiner, at anytime prior to discharge.

Noncertificated Employees: This bill directly impacts the state by requiring the IEERB to appoint a hearing examiner upon the written request by a noncertificated school employee subject to discharge. To comply with this provision, the Board may require additional funding between $50,000 and $100,000 annually for ad hoc services based on an estimated 100 cases per year.

State Educational Institution Employees: It is estimated that approximately 57,000 employees would be impacted by this legislation at Indiana’s seven state educational institutions. Their inclusion could result in approximately 72 additional cases per year at a total cost of $33,600 annually.

Any suspensions with pay under this legislation will increase the expenditures of a state educational institution if replacement employees are hired during the period of suspension. This bill may also increase administrative expenses to the extent that current discipline and dismissal policies at these institutions allow for more rapid action by the employer. The majority of state funding for these entities comes from the state General Fund.

Explanation of State Revenues: (Revised) Assuming that collective bargaining results in higher wages over time, state income tax revenues should increase. Revenues from the sales tax, the motor vehicle excise tax, and other revenue sources may also increase as higher wages stimulate consumption.

Explanation of Local Expenditures: (Revised) *I. Collective Bargaining:* Estimating the fiscal impact from the introduction of collective bargaining for non-certificated employees of school corporations is difficult mainly due to the lack of data and the existence of "spillover" effects from employee groups who already collectively bargain. According to the Indiana School Boards Association, around 39 school corporations currently participate in collective bargaining with their non-certificated employees. The approximate payroll of non-certificated school employees in Indiana for FY 97 was about $839 M.

Collective bargaining is not new to school corporations in Indiana. Teachers have been allowed to bargain collectively for several years. Since teachers and non-certificated school employees work side-by-side in the same buildings and have the same employers making the wage-setting decisions, some of the effect of teacher collective bargaining will have "spilled over" to the non-certificated personnel. School administrators and school boards are likely to be influenced by contract settlements with their teachers and by the competitive wage levels for comparable employees of neighboring school systems, some of whom may be under collectively bargained contracts. Because of these factors, it is difficult to project the magnitude of the increase in wages and benefits to these employees associated with the introduction of collective bargaining.

Since school corporations are largely dependent on property taxes whose growth is restricted by the state, increased wages and benefits may not result in increased tax collections. Instead, greater personnel costs may force reallocations from other areas in the school budget or result in a greater demand for state funds.

II. Seniority Provision: Additional costs to local school corporations may arise from provisions in the bill which require decisions on reduction in force and rehiring to be based solely on classification seniority. This provision may alter the hiring decisions of the employer. The fiscal impact is unknown and would depend upon the specific hiring decisions (and the associated wage levels of the employees affected) that would have occurred without this provision.

III. Discipline and Dismissal Procedures: Any suspensions with pay under this legislation may increase school corporation expenditures. To the extent that current discipline and dismissal policies at these institutions allow for more rapid action by the employer, this bill may increase administrative expenses. School corporation funding comes from local property taxes and the state and federal governments.

Explanation of Local Revenues: (Revised) Counties with local option income taxes may also experience some additional revenue if collective bargaining result in higher wages over time.

State Agencies Affected: IEERB; state educational institutions.

Local Agencies Affected: School corporations.

Information Sources: Dennis Neary, Chairman, IEERB, 233-6620; Patty Bond, Dept. of Education, 232-0840; Nelson Miller, Indiana School Boards Association 639-0330.